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Sessional Paper No. 322/83
1 Session, 20 Legislature

LEGISLATURE LIBRARY
APR 13 1983
EDMONTON

PACIFIC WESTERN AIRLINES
TASK FORCE REPORT

March 25th, 1983

PWA TASK FORCE REPORT

The Government of Alberta by Order-in-Council appointed the Task Force and requested the Task Force to make recommendations within the terms of Reference on the manner by which the shares of Pacific Western Airlines ("PWA") owned by the Government of Alberta should be sold to the public.

The Terms of Reference stipulate:

(1) The shares should be offered primarily in Alberta and Western Canada to a widely distributed market;

(2) The shares must remain widely held to ensure continuing broad ownership;

(3) The selling price must reflect the present value of the airline and be structured to permit reasonable long-term investment opportunities to the airline and its new shareholders; and

(4) PWA should continue to be in a position to seek new opportunities to provide improved and expanded air services.

The Task Force met with officers and management of PWA and examined PWA's corporate structure, commercial services, operations, administration and financial position. The Chairman of the Task Force, Mr. T. S. Dobson, conducted a number of interviews with senior officers of PWA, particularly Mr. R. T. Eyton, the President and Chief Executive Officer of PWA. The Task Force also obtained such outside financial and professional advice as it deemed necessary for the purposes of preparing this report.

The Task Force received complete cooperation from the officers and staff of PWA, who were not only of great assistance by their expeditious preparation of the financial and other information requested, but were open and frank with the members of the Task Force in reply to our inquiries.

We concluded that PWA is a well-managed company with outstanding potential for future growth and profitability, notwithstanding the difficult circumstances facing airlines as a result of escalating costs and the current economic recession. Indeed, the management of PWA has responded decisively to the changing economic conditions, often far ahead of many other business enterprises. The positive attitude of the employees of the Company was reflected by their many unsolicited requests for participation in any equity issue which ensues.

However, our financial advisors are of the opinion and we are in agreement, that PWA needs to increase its capital base so as to compare favourably with industry standards, the expectations of the security market place and more importantly, to be in a strong "stand alone" financial position after the disposition of the Government's shares.

In the circumstances, we wish to advise the Government as follows:

A. We have concluded that a widely distributed public offering of a combination of shares and warrants of PWA to raise up to $60 Million can be successfully completed under current conditions with priority being given, initially, to Albertans and residents of Western Canada. We recommend that employees of PWA be included in any priority group.

B. A significant advantage of wide distribution would be to ensure meaningful representation at regulatory and political levels. In addition, we have concluded a widely distributed initial offering of shares will not of itself prevent a later take-over bid by a party who is uncommitted to the goals of PWA as a Canadian regional airline.

The Task Force has, therefore, considered the manner in which ownership and voting restrictions may be entrenched so that they are not subject to later avoidance or alteration. The

usual method of imposing restrictions on a corporation's ownership and voting levels is in its share provisions which can be altered by shareholders. The Task Force has noted the examples of Alberta Energy Company and Nova, an Alberta Corporation and has concluded that broad ownership of PWA should be maintained by placing it within the framework of a special act of the Legislature of Alberta, where changes to the fundamental powers of the company and the rights of its shareholders cannot be made except by legislation.

We recommend that:

(i) PWA be re-organized as a "special act" company by the Legislature of Alberta; and

(ii) ownership and voting restrictions not exceeding 4% be contained in such special act, those restrictions not to apply to the Government of Alberta.

In regard to (ii) above, our financial advisors expressed some concern as to the adverse impact on the marketability of a share issue if ownership and voting restrictions were as low as 4%, but the Task Force, while recognizing the importance of a successful distribution of the PWA shares, are of the opinion a 4% ownership and voting restriction should be marketable.

As in the case of Alberta Energy, the 4% voting restriction ought not to apply to the residual shares held by the Province pending final distribution.

C. Because of PWA's success and rapid growth in a capital intensive industry and because the government desires that PWA

continue to play an important role in the economy of Western Canada and because our investigations confirm the market could not support the necessary equity needs of PWA concurrently with a secondary distribution of all the Province's shares, we recommend that the public offering be in two stages. The majority of the proceeds of the offering of a combination of treasury shares and warrants should be used by PWA as additional equity capital with the balance being utilized to purchase an initial portion of the Province's shares. The remainder of the Province's shares could be disposed of by a subsequent offering or offerings as market and economic conditions permit. Alternately, the warrants included in the initial public offering could be made exercisable into a portion of the Province's shares through the creation of an appropriate trust agreement between the Province and PWA. By following this procedure, the Province would receive, assuming full exercise of the warrants, a premium for its holdings which is estimated at 15% to 20% over the sale price of the PWA treasury shares.

Ideally, an issue raising $60 Million with an injection of equity capital into PWA of $50 Million would establish a satisfactory equity base and enable it to operate on a "stand alone" basis following the disposition of all the Government's shares. In the event that only $55 Million is raised on the initial offering, the Task Force is satisfied that $45 Million in additional equity would meet the corporate requirements of PWA. Either of these alternatives would permit an initial purchase of PWA shares of up to $10 Million from the Province.

We recommend that PWA make a public offering of a combination of treasury shares and warrants of $60 Million, of which ideally, $50 Million be used for equity capital purposes and the balance to purchase a sizeable portion of the Government's shares. The combination of treasury shares and warrants and

other details of the offering should be determined in the light of market conditions existing at the time of underwriting.

D. In arriving at a "value" of the Government's shares of PWA, as stipulated by our Terms of Reference, the following principal factors were taken into consideration:

(i) The word "value" was interpreted to mean "current realizable market distribution value" and included consideration of cash flow and earnings, as well as asset value. Realizable market distribution value for a potential share offering to the public does not necessarily represent the maximum price a single control group would pay for the airline;

(ii) the Terms of Reference impose certain constraints such as the requirement of broad ownership, the imposition of geographical limitations and the condition that the selling price must be structured to permit reasonable long-term investment opportunities to the airline and its new shareholders;

(iii) our financial consultants placed emphasis on examining multiples of cash earnings and cash flow in relation to the four United States regional airlines with publicly traded shares, considered most similar to PWA. A comparison of net earnings was of limited value because of the differences in the tax rates in Canada and the United States.

(iv) In Canada, there are no publicly traded airline stocks comparable to PWA. No meaningful comparison could be made in that regard;

(v) the financial effect of the existence of the outstanding term Preferred Shares issued by PWA's taxable subsidiary, PWA Alberta Ltd., was examined;

(vi) Consideration was given to the expectation that PWA would acquire up to $50 Million additional equity capital.

We concluded that the realizable market distribution value of the shares of PWA owned by the Government is, at this date, in the range of $50 - $60 Million.

The above is respectfully submitted on behalf of the Task Force.

T. S. DOBSON
Chairman

SENATOR E. MANNING, P.C.

W. S. McGREGOR

F. R. WRIGHT